

## Monthly Financial Close Policy Guide Sheet

### What Is a Monthly Financial Close?

A monthly financial close is a period comprised from the first to last day of each month in which the “books are closed.” Financial staff use this time to balance revenues and expenses and properly record assets, liabilities, and equity to ensure that all necessary general ledger entries have been correctly processed and documented. General ledger information and correctness is important because financial staff will use it to create financial reports, such as statements of financial activity and statements of financial position.

### Financial Grant Management Requirement

The Department of Justice requires the submission of [SF-425](#) Federal Financial Reports through the JustGrants system on a quarterly basis, starting in January of each year, to report on the financial status of your grant award. (This could be subject to extensions and changes from extenuating circumstances and will be informed on in a timely manner.) Financial closings can be performed on a quarterly basis, matching the federal reporting requirements. However, according to the Generally Accepted Accounting Principles, it is a best practice to perform a monthly financial close.

### Important Information to Know

Monthly financial closes are typically recommended because of the shorter period covered. Usually, covering a shorter period—a month rather than a quarter—results in having fewer transactions, entries, documents, payments, and overall activity to account for. Shortening the period, generally, reduces the risk of committing errors in record keeping and, consequently, in reporting because the amount of information being processed is less than for it would be for longer periods. Monthly financial closes also

promote timely preparation of quarterly financial reports since the majority of the quarterly period information (two out of three months) has already been processed at quarter end. This would leave only one new month to process followed by a compilation of all three, as opposed to having to process all three at the same time.

### How This Applies to Your Grant

The monthly close procedures must be specifically outlined before reaching month end, and key personnel conducting it must be aware and capable of performing their responsibilities. These procedures are often a checklist outlining how a grantee reviews, records, reconciles, and balances accounting information in each monthly period.

The American Institute of Certified Public Accountants has recommendations for [closing cycle best practices](#) organized by timeframes, which are listed below.

#### Four days prior to period end:

- ▶ Review the closing schedule and distribute it to staff.
  - As mentioned above, it is imperative your staff is clear on who is responsible for each process and when is it expected of them.
  - Generally, the monthly close progress is subject to processes that are built upon one another or that are conditioned on the previous completion of another. If one falls behind, it could contribute to untimely final reporting.
- ▶ Corroborate recurring journal entries are correct and still needed for current period.
  - Examples of common recurring expenses include fixed payroll expenses, lease payments, rental payments, and insurance premium payments.
  - Recurring entries must be verified as they may no longer apply to the current month. For example, if you've had recent employee turnover, a payroll expense entry may not be needed or may have to be modified to include a reduced number of days rather than the whole period.

- ▶ Download preliminary financial statements and verify for errors and unusual variances.
  - Preparing preliminary financial statements helps in reporting accuracy by showing discrepancies when compared to the financial statements of prior periods and can then be corrected or adjusted, as necessary.

### Two days prior to period end:

- ▶ Verify any contractual agreements for obligations to be paid.
  - Checking these agreements ensures that the expenses that arise from these are recorded in the corresponding period and that suppliers are disbursed for their products or services in a timely manner.
- ▶ Update fixed asset schedule and calculate/verify depreciation.
  - Updating the fixed asset schedule is key in recording new purchases of devaluing assets and their subsequent depreciation.
  - Calculating and verifying depreciation ensures that no over or under depreciation expense is being taken into account and that the book value of the assets is accurate.

### One day prior to period end:

- ▶ Complete preliminary bank reconciliations.
  - Bank reconciliations are of the utmost importance as they involve cash and cash equivalents, which are the assets most likely involved in fraud or improper use of funds.
  - Bank reconciliations can help identify obligations for which necessary payments have not been made.
- ▶ Audit inventory.
  - For grantees, this inventory is usually composed of training materials and other tangible resources that help the programmatic aspect of the award. Knowing when inventory is low can ensure timely reordering and restocking for future activities and identify potential foul play, if materials are missing.

### Day of period end:

- ▶ Print or download all period-end reports and process

## About the OJP Territories Financial Support Center

**The Office of Justice Programs Territories Financial Support Center** (OJP TFSC) offers free resources, training, and technical assistance for grantees in the U.S. territories. OJP TFSC services focus on building financial management capacity and can be accessed by emailing [OJPTFSC@usdoj.gov](mailto:OJPTFSC@usdoj.gov) via our Virtual Support Center.

period-end closing program.

- Period-end reports are very important as they are later compared to general ledger balances.
- The period-end closing program consists of processing all entries in the normal close process and cannot be modified after the period close.

### One day after period end:

- ▶ Reconcile general ledger balances to period-end reports.
  - These two amounts must be equal. If they are not, it could indicate errors or omissions in the preparation of either one. Go back, review, and correct ASAP!
- ▶ Complete accruals and close accounts receivable and payable books.
  - In accrual basis, ensuring all revenues and expenses incurred in the period are recorded warrants accuracy and promotes comparability between periods.
  - Proper closing of accounts receivable (A/R) and accounts payable (A/P) books guarantees all revenues and expenses are accounted for and that the statement of financial activity is correct.

### Two days after period end:

- ▶ Complete financial statements.
  - Corroborate that any errors or omissions found on the preliminary financial statement verification were rectified.
  - Review (yet again) the financial statements for accuracy. If there are amounts or figures that seem uncommon or odd, double-check the general ledger balances and period-end reports to make sure they are factual and justified.
  - Completing the financial statements includes processing any back-dated adjusting entries needed to correct any errors, omissions, or inaccuracies not caught in the prior steps.

## Resources

[AICPA—Closing Cycle Best Practices](#)

[2 CFR §200.328 Financial Reporting](#)



*This product was prepared under contract/call order number GS-00F-010CAV15PCFD20F00000200 awarded by the Office of Justice Programs, U.S. Department of Justice and does not constitute financial or other professional advice. The opinions, findings, and conclusions expressed in this product are those of OJP TFSC and do not represent the official position or policies of the U.S. Department of Justice.*